

ORIGINAL

MEMORANDUM



0000107823

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

EA for SMO

DATE: January 29, 2010

RE: STAFF REPORT FOR VERNON VALLEY WATER, INC.'S APPLICATION
FOR A PERMANENT RATE INCREASE (DOCKET NO. W-20540A-09-0351)

Attached is the Staff Report for Vernon Valley Water, Inc.'s application for a permanent rate increase. Staff recommends approval of its rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 08, 2010.

SMO:BCA:red

Originator: Brendan C. Aladi

AZ CORP COMMISSION
DOCKET CONTROL

2010 JAN 29 P 3:39

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Arizona Corporation Commission

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Service List for: Vernon Valley Water, Inc.
Docket No. W-20540A-09-0351

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**VERNON VALLEY WATER, INC.
DOCKET NO. W-20540A-09-0351**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

JANUARY 29, 2009

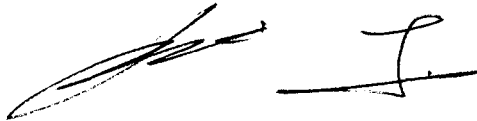
STAFF ACKNOWLEDGMENT

The Staff Report for Vernon Valley Water, Inc. ("Company"), Docket No. W-20540A-09-0351, was the responsibility of the Staff members listed below. Brendan Aladi was responsible for the review and analysis of the Company's application for a permanent rate increase, revenue requirement, rate base, and rate design. Jian Liu was responsible for the engineering and technical analysis. Bradley Morton was responsible for reviewing the Arizona Corporation Commission's ("Commission") records on the Company and reviewing customer complaints filed with the Commission.

Brendan C. Aladi
Public Utilities Analyst III



Jian Liu
Utilities Engineer



Bradley Morton
Public Utilities Consumer Analyst II



**EXECUTIVE SUMMARY OF
VERNON VALLEY WATER, INC.
DOCKET NO. W-20540A-09-0351**

Vernon Valley Water, Inc. ("Vernon Valley" or "Company") is a sub-chapter "S" Corporation and a class "E" Arizona public service corporation. The Company provides potable water service to 19 metered residential customers in portions of Apache County, Arizona.

The Company proposes total operating revenue of \$9,174, an increase of \$684, or 8.1 percent above the Company's test year revenue of \$8,490. Staff recommends total operating revenue of \$10,317, an increase of \$1,827, or 21.5 percent above the test year revenue of \$8,490.

The Company's proposed rates would increase the typical residential bill with a median usage of 3,958 gallons, from \$33.88 to \$36.88 for an increase of \$3.00 or 8.9 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 3,958 gallons, from \$33.88 to \$35.88 for an increase of \$2.00 or 5.9 percent.

STAFF RECOMMENDATIONS

Staff recommends:

- That the Commission approve Staff's recommended rates and charges as shown on Schedule BCA-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D.5).
- That the Company be ordered to file with Docket Control, as a compliance item in this docket, within 30 days after the Decision in this matter is issued, a schedule of its approved rates and charges.
- That the Company be ordered to adopt and use the depreciation rates as shown in Table H-1 of the Engineering Report.
- That the Company be ordered to maintain its records in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts.
- That the Company be ordered to file with Docket Control, as a compliance item in this docket, within 90 days of a Decision in this matter, documentation demonstrating that the Company has installed a master meter on the well.
- That the Company be ordered to report its water pumped by month in future Annual Reports.
- If the water loss is greater than 10 percent in any 12-month period, Staff recommends that within 90 days after the Annual Report is filed, the Company file with Docket

Control, as a compliance item in this docket, a detailed plan demonstrating how Vernon Valley will reduce its water loss to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company should submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost-effective. In any event, water loss shall not exceed 15 percent. The Company shall file the cost analysis report with Docket Control, as a compliance item in this docket within 90 days after the Annual Report is filed.

- That the Company be ordered to file a Cross-Connection Backflow Tariff in the form found on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms/CrossConnectionBackflow.pdf>. This tariff shall be docketed as a compliance item in this case within 45 days of the effective date of a Decision in this proceeding for review and certification by staff.
- That the Company be ordered to install/update an "information" sign at the facility site. The sign should comply with Arizona Department of Environmental Quality requirements and should include the following information: system name, system PWS ID and emergency contact phone numbers. The Company shall file documentation with Docket Control demonstrating compliance within 45 days after the effective date of the Decision in this case.

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ATTACHMENT

Engineering Report Attachment A

FACT SHEET

Company:

Current Rates: Decision No. 55145, dated August 7, 1986
Type of Ownership: sub chapter S Corporation

Location: The Company is located in Apache County, Arizona. The Company is not located in an Active Management Area ("AMA").

Rates:

Permanent rate increase application filed: July 9, 2009
Current test year ended: December 31, 2008
Prior test year ended: None, acquisition date May 14, 1992

Monthly Charges:

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charges:			
5/8 x 3/4-inch meter	\$25.00	\$25.00	\$24.00
3/4-inch meter	\$30.00	\$30.00	\$36.00
Gallons in Minimum	1,000	0	0

Commodity Charges:

Over 1,000 gallons	\$ 3.00	N/A	N/A
Per 1,000 gallons for all usage	N/A	\$ 3.00	N/A
0 to 4,000 gallons (per 1,000 gallons)	N/A	N/A	\$ 3.00
4,001 to 10,000 gallons (per 1,000 gallons)	N/A	N/A	\$ 4.55
10,001 and over gallons (per 1,000 gallons)	N/A	N/A	\$ 6.20

Typical residential bill:

Average use (5,862 gallons)	\$39.59	\$42.59	\$44.47
Median use (3,958 gallons)	\$33.88	\$36.88	\$35.88

N/A = Not Applicable

Customers:

Average number of customers in the current test year (12/31/08): 19

Current test year customers by meter size:

5/8 X 3/4-inch	19
3/4-inch	0
1-inch	0
1 1/2-inch	0
2-inch	0
4-inch	0
6-inch	0

Seasonal customers: N/A

Customer notification for rate application filed: July 1, 2009

Number of customer complaints and/or opinions concerning rate application filed: 0

Percentage of complaints to customer base: 0.0%

SUMMARY OF FILING

On July 9, 2009, Vernon Valley Water, Inc. ("Vernon Valley" or "Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On October 6, 2009, the application was deemed sufficient.

The test year results as adjusted by the Commission Utilities Division Staff ("Staff") for the Company show total operating revenue of \$8,490 and an operating income of \$210 on an Original Cost Rate Base ("OCRB") of \$22,480 for a 0.93 percent rate of return, as shown on Schedule BCA-1.

The Company's proposed rates, as filed, would produce total operating revenue of \$9,174 resulting in an operating loss of \$5,078, as shown on Schedule BCA-1. The Company proposed OCRB is \$39,168.¹ The Company's proposed rates, as filed, would increase the typical residential 5/8 x 3/4 inch meter bill, with a median usage of 3,958 gallons by \$3.00 or 8.9 percent from \$33.88 to \$36.88, as shown on Schedule BCA-5.

Staff recommends rates that would produce total operating revenue of \$10,317 resulting in an operating income of \$2,037, or a 9.06 percent rate of return on Staff's recommended OCRB of \$22,480, as shown on Schedule BCA-1. Staff's recommended rates would increase the typical residential 5/8 x 3/4 inch meter bill, with a median usage of 3,958 gallons by \$2.00 or 5.9 percent from \$33.88 to \$35.88, as shown on Schedule BCA-5.

BACKGROUND

On August 7, 1986, Commission Decision No. 55145, granted Serviceberry Water Company a Certificate of Convenience and Necessity ("CC&N") to operate a domestic water utility.

On May 14, 1992, the Commission approved the sale of assets and the transfer of the CC&N to Mr. Mark Grapp, in Decision No. 57852. Mr. Grapp operated the business under the name of Mark Grapp dba Serviceberry Water Company.

On October 30, 2007, Commission Decision No. 69963, approved the sale of assets and the transfer of the CC&N of Mark Grapp dba Serviceberry Water Company to Vernon Valley Water, Inc. On July 9, 2009, Vernon Valley filed an application for a permanent rate increase.

TEST YEAR CUSTOMERS

During the test year ended December 31, 2008, Vernon Valley provided water service to 19 metered customers. All customers are served by 5/8 x 3/4 inch meters.

¹ The Company is not proposing a Fair Value rate base that differs from the OCRB.

CONSUMER SERVICES

Staff reviewed the Commission's records and found no complaints, inquiries, or opinions for the period January 1, 2006, to January 22, 2010.

ENGINEERING ANALYSIS

Staff inspected the Company's plant facilities on November 24, 2009. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

COMPLIANCE

The Utilities Division Compliance Section shows no outstanding compliance issues.

Vernon Valley is current on its Utilities and Corporations annual reports.

Vernon Valley is also current on its sales and property tax payments.

Staff's review revealed that the Company does not maintain its recordkeeping in compliance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

RATE BASE

Staff's adjustments decreased the Company's proposed rate base by \$16,688, from \$39,168 to \$22,480, as shown on Schedule BCA-2, page 1. Details of Staff's adjustments are discussed below.

PLANT IN SERVICE

Staff's adjustments to plant in service (Adjustment A) resulted in a net decrease of \$30,199, from \$79,090 to \$48,891, as shown on Schedule BCA-2, page 2. The Company did not have sufficient records to substantiate plant values. As a result, Staff used the plant in service amount of \$14,147 from the balance sheet Serviceberry Water Company submitted with its application for approval of the sale of assets and transfer of the CC&N in 1991, as a starting point, and adjusted that amount for plant additions and retirements. The 1992 plant in service amounts filed by the Company (total \$59,651) appear to be estimates.

Land and Land Rights – Adjustment "a" decreases this account by \$15,306, from \$20,000 to \$4,694, as shown on Schedule BCA-2, pages 2 and 3. Staff's adjusted amount reflects a removal of plant costs the Company could not substantiate.

Structures and Improvements – Adjustment “b” decreases this account by \$1,982, from \$2,590 to \$608, as shown on Schedule BCA-2, pages 2 and 3. Staff’s adjusted amount reflects the removal of plant costs the Company could not substantiate.

Wells and Springs – Adjustment “c” decreases this account by \$7,263, from \$9,490 to \$2,227, as shown on Schedule BCA-2, pages 2 and 3. Staff’s adjusted amount reflects a removal of plant costs the Company could not substantiate.

Pumping Equipment – Adjustment “d” decreases this account by \$3,444, from \$7,397 to \$3,953, as shown on Schedule BCA-2, pages 2 and 3. Staff’s adjusted amount reflects a removal of plant costs the Company could not substantiate.

Distribution Reservoirs, Storage – Adjustment “e” decreases this account by \$2,278, from \$2,976 to \$698, as shown on Schedule BCA-2, pages 2 and 3. Staff’s adjusted amount reflects a removal of plant costs the Company could not substantiate.

Meters and Meter Installations – Adjustment “f” decreases this account by \$73, from \$759 to \$686, as shown on Schedule BCA-2, pages 2 and 4. Staff’s adjusted amount reflects a removal of plant costs the Company could not substantiate.

Transmission and Distribution Mains – Adjustment “g” increases this account by \$147, from \$35,076 to \$35,223, as shown on Schedule BCA-2, pages 2 and 3. Staff’s adjusted amount reflects recognition of negative acquisition adjustment that resulted from the purchase of plant assets below the net book value in Decision No. 57852.

ACCUMULATED DEPRECIATION

Staff decreased accumulated depreciation (Adjustment B) by \$14,915 from \$40,415 to \$25,500, as shown on Schedule BCA-2, page 4. The decrease is based upon the adjustments Staff made to plant in service. The current depreciation rate is 5.00 percent. Staff noted that the Company had inappropriately applied unauthorized depreciation rates to plant balances in 2001.

WORKING CAPITAL

Staff’s adjustment to working capital (Adjustment C) resulted in a net increase of \$196, from \$493 to \$689, as shown on Schedule BCA-2, page 1 as a result of calculating cash working capital via the formula method.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses, plus one twenty-fourth of purchased power and purchased water expenses.

AFFILIATED COMPANIES AND ALLOCATIONS

Vernon Valley is one of five companies² operated from an office located at 340 N. 9th Street in Show Low, Arizona. All five companies are owned by Mr. Grapp and are Commission-regulated with the exception of Cedar Grove Water Management Company.

The owner uses shared services to manage and operate the five companies. The shared services include, but are not limited to, employees, transportation, office building space, office supplies, utilities, computers, telephone, insurance, and other miscellaneous services. Also, Mr. Grapp's officer salary is allocated among the four regulated companies. The Company states that no affiliate profit is included in the billings of any affiliate company.

The primary goal of cost allocation is to prevent or limit, as much as possible, any cross-subsidization of customers from one company by customers of another company. Staff reviewed the allocation methodology used by Vernon Valley. Staff found that Vernon Valley allocates shared expenses based on a single factor (i.e., the number of customers served per regulated utility) and when all Companies are unable to meet an expense, Mr. Grapp subsidizes the Company's expense.

The single-factor allocation methodology that Vernon Valley uses is inappropriate because it always results in the utility company with the largest number of customers paying the largest amount of the allocated cost regardless of any direct causal relationship between the number of customers and that cost.

For example, the owner's officer salary of \$61,722 is allocated among the four regulated utilities based on the number of customers per utility. The owner could, in any given year, spend significantly more time on Vernon Valley, which is the smallest of the utilities with 19 customers due to complex or high numbers of problems arising in it as compared to Watco (which has 316 customers). If this were to occur, the cost causation ratemaking principle indicates that Vernon Valley would be allocated most of the owner's officer salary. However, under the Company's present methodology, Watco would be unfairly allocated most of the officer's salary.

The NARUC Guideline for Cost Allocations and Affiliate Transactions states that:

The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators. (Emphasis added).

Staff utilized the NARUC Cost Allocation guidelines to identify four relevant cost drivers of the Company's indirect shared expenses. The equally weighted factors used in calculating the general allocation percentage are as follows:

² Watco, Inc.; Cedar Grove Water Company, Inc.; Cedar Grove Water Management Company; A Peterson Water Company; and Serviceberry Water Company, Inc.

1. Direct labor hours of employees
2. Direct operating expense
3. Number of customers, and
4. Net plant

Staff's calculation of the four-factor general allocation percentage is shown on Schedule BCA-3, page 5. Staff recommends that Vernon Valley adopt Staff's four-factor allocation methodology. Staff's methodology produces a more equitable allocation of shared indirect expenses because it more closely follows the NARUC Cost Allocation guidelines of identifying relevant cost drivers and utilizing direct costs to the extent possible.

OPERATING INCOME STATEMENT

Operating Revenue

Staff concurs with the Company's test year operating revenue, as shown on Schedule BCA-3, page 1.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net decrease of \$5,972 from \$14,252 to \$8,280, as shown on Schedule BCA-3, page 1. Details of Staff's adjustments follow.

Staff's adjustments relate primarily to the allocation of shared expenses using Staff's four-factor allocation percentage. For shared expenses that Staff determined were incurred only for the four regulated companies, Staff allocated the entire expense to the four regulated companies. For shared expenses that also benefited the unregulated company, Staff removed the portion of expense attributed to the unregulated company and allocated the remaining balance of the expense among the four regulated companies.

Salaries and Wages – Adjustment A decreases this account by \$4,874, from \$7,414 to \$2,540, as shown on Schedule BCA-3, pages 1 and 2.

Mr. Grapp does not keep track of the amount of time he spends working directly for each of his various companies. He allocates his officer salary based on the customer count per utility. The Company could not provide any studies to support its single-factor allocation methodology. Staff's adjustment reflects the use of Staff's four-factor allocation percentage to allocate the officer's salary. The Company indicated that the \$61,722 officer's salary for Mr. Grapp pertained only to the four regulated companies.

Purchased Power Expense – Adjustment B decreases purchased power by \$14 from \$890 to \$876, to reflect the aggregate of the test year purchased power invoices, as shown on Schedule BCA-3, pages 1 and 2.

Office Supplies and Expenses – Adjustment C increases this account by \$64, from \$276 to \$340, as shown on Schedule BCA-3, pages 1 and 2. Staff's adjustment reflects the use of Staff's four-factor allocation percentage to allocate shared office supplies and expenses.

Water Testing Expense – Adjustment D increases this account by \$175, from \$660 to \$835, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects the Staff water testing expense recommendation. (See Engineering Report).

Rents Expense – Adjustment E increases this account by \$23, from \$308 to \$331, as shown on Schedule BCA-3, pages 1 and 2. Staff's adjustment reflects the use of Staff's four-factor allocation percentage to allocate the \$13,345 rents expense.

Transportation Expense – Adjustment F increases this account by \$292, from \$0 to \$292, as shown on Schedule BCA-3, pages 1 and 2. Mr. Grapp owns a vehicle that is used for all of the utility companies. No logs tracking the number of miles traveled for each utility is maintained. The Company did not claim any transportation expense in its application; however, the Company did provide support for an annual transportation expense of \$14,161. Staff's adjustment reflects the allocation of a portion of the total expense.

Staff believes that 15 to 20 percent would be a reasonable estimate of Mr. Grapp's personal use of the vehicle. Therefore, Staff removed \$2,400 from the total amount (or approximately 17 percent) for personal use of the vehicle belonging to Mr. Grapp. Staff allocated the remaining \$11,761 (\$14,161 - \$2,400) to the four regulated companies using the four-factor allocation percentage. This resulted in a \$292 allocation to Vernon Valley.

General Liability Insurance Expense – Adjustment G increases this account by \$51, from \$41 to \$92, as shown on Schedule BCA-3, pages 1 and 2. The Company provided a 2008 insurance policy that covered all five of the owner's companies with a \$4,619 annual premium. Staff removed one-fifth of the cost (which represents the unregulated company's portion) and allocated the remaining four-fifths among the four regulated utilities based upon Staff's four factor allocation percentage. This resulted in a \$92 allocation to Vernon Valley.

Depreciation Expense – Adjustment H decreases this account by \$1,564 from \$2,956 to \$1,392, as shown on Schedule BCA-3, pages 1 and 2. This adjustment reflects application of Staff's recommended depreciation rates to Staff's recommended plant balances for Vernon Valley.

Taxes Other Than Income Expense – Staff's Adjustment I decreased this account by \$125, from \$553 to \$428, as shown on Schedule BCA-3, pages 1 and 2. Staff's adjustment reflects Staff's calculation of taxes other than income.

REVENUE REQUIREMENT

Staff's recommended 9.06 percent rate of return on rate base would provide an operating income of \$2,037. This results in a recommended revenue requirement that is \$1,143 more than the Company's proposal.

RATE DESIGN

Schedule BCA-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

Under the Company's present rates, the monthly minimum charges vary by meter size and include 1,000 gallons. The commodity rate is \$3.00 per thousand gallons for all usage over 1,000 gallons. The Company's proposed rates would increase the typical residential bill with a median usage of 3,958 gallons from \$33.88 to \$36.88, for an increase of \$3.00 or 8.9 percent, as shown on Schedule BCA-5.

Staff recommends a three-tier inverted commodity rate structure for all meter sizes. Currently, all customers are served by 5/8 x 3/4 inch meters. Staff further recommends breakover points at 4,000 and 10,000 gallons. Staff's recommended rates would increase the typical residential bill with a median usage of 3,958 gallons from \$33.88 to \$35.88, for an increase of \$2.00 or 5.9 percent, as shown on Schedule BCA-5.

SERVICE LINE AND METER INSTALLATION CHARGES

The Company proposes new service line and meter installation charges as shown on Schedule BCA-4. Staff recommends approval of the charges as shown in Table J-1 of the Engineering Report, with separate installation charges for the service line and meter installations.

MISCELLANEOUS SERVICE CHARGES

The Company proposes to increase service charges for Establishment Fee from \$15 to \$25. Staff finds \$25 as a reasonable and normal charge and recommends it.

The Company proposes to increase service charge for Establishment (After hours) from \$35 to \$40. Staff finds \$40 as a reasonable and normal charge and recommends it.

The Company proposes to increase service charge for Reconnection (delinquent) from \$15 to \$25. Staff finds \$25 as a reasonable and normal charge and recommends it.

The Company proposes to add service charge for Reconnection (delinquent) after hours of \$40. Staff finds \$40 as a reasonable and normal charge and recommends it.

The Company proposes to decrease Meter Tests (if correct) from \$50 to \$40. Staff finds \$25 as a reasonable and normal charge and recommends \$25.

The Company does not propose any change for Deposit, Deposit interest and Re-establishment (within 12 months) service charges. Staff concurs and does not recommend any change to these services charges.

The Company proposes to increase NSF charges from \$10 to \$30. Staff finds \$25 as a reasonable and normal charge and recommends \$25.

The Company proposes to add service charge for Deferred Payment (per month) of 1.50 percent. Staff concurs and finds 1.50 percent of the monthly outstanding balance as a reasonable and normal charge and recommends it.

The Company proposes to increase Meter Re-reads (if correct) from \$10 to \$20. Staff finds \$15 as a reasonable and normal charge and recommends \$15.

The Company proposes to add Late Payment Charge (per month) of 1.50 percent. Staff concurs and finds 1.50 percent of the monthly outstanding balance as a reasonable and normal charge and recommends it.

STAFF RECOMMENDATIONS

Staff recommends:

- That the Commission approve Staff's recommended rates and charges as shown on Schedule BCA-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D.5).
- That the Company be ordered to file with Docket Control, as a compliance item in this docket, within 30 days after the Decision in this matter is issued, a schedule of its approved rates and charges.
- That the Company be ordered to adopt and use the depreciation rates as shown in Table H-1 of the Engineering Report.
- That the Company be ordered to maintain its records in accordance with the NARUC USOA.
- That the Company be ordered to file with Docket Control, as a compliance item in this docket, within 90 days of a Decision in this matter, documentation demonstrating that the Company has installed a master meter on the well.

- That the Company be ordered to report its water pumped by month in future Annual Reports.
- If the water loss is greater than 10 percent in any 12-month period, Staff recommends that within 90 days after the Annual Report is filed, the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how Vernon Valley will reduce its water loss to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company should submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost-effective. In any event, water loss shall not exceed 15 percent. The Company shall file the cost analysis report with Docket Control, as a compliance item in this docket within 90 days after the Annual Report is filed.
- That the Company be ordered to file a Cross-Connection Backflow Tariff in the form found on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms/CrossConnectionBackflow.pdf>. This tariff shall be docketed as a compliance item in this case within 45 days of the effective date of a Decision in this proceeding for review and certification by staff.
- That the Company be ordered to install/update an "information" sign at the facility site. The sign should comply with Arizona Department of Environmental Quality requirements and should include the following information: system name, system PWS ID and emergency contact phone numbers. The Company shall file documentation with Docket Control demonstrating compliance within 45 days after the effective date of the Decision in this case.

Vernon Valley Water, Inc.

Docket No. W-20540A-09-0351

Test Year Ended December 31, 2008

Schedule BCA-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$8,475	\$8,475	\$9,159	\$10,302
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	15	15	15	15
Total Operating Revenue	\$8,490	\$8,490	\$9,174	\$10,317
Operating Expenses:				
Operation and Maintenance	\$10,377	\$6,094	\$10,377	\$6,094
Depreciation	2,956	1,392	2,956	1,392
Property & Other Taxes	919	794	919	794
Income Tax	0	0	0	0
Total Operating Expense	\$14,252	\$8,280	\$14,252	\$8,280
Operating Income/(Loss)	(\$5,762)	\$210	(\$5,078)	\$2,037
Rate Base O.C.L.D.	\$39,168	\$22,480	\$39,168	\$22,480
Rate of Return - O.C.L.D.	N/M	0.93%	N/M	9.06%
Percent Increase	N/M	N/M	8.1%	21.5%

N/M = Not meaningful

RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$79,090	(\$30,199)	A	\$48,891
Less:				
Accum. Depreciation	40,415	(14,915)	B	25,500
Net Plant	\$38,675	(\$15,284)		\$23,391
Less:				
Plant Advances	\$0	\$1,600		\$1,600
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$0	\$1,600		\$1,600
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$0	\$1,600		\$1,600
Plus:				
1/24 Power	\$37	\$0		\$37
1/8 Operation & Maint.	456	196	C	652
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$493	\$196		\$689
Rate Base	\$39,168	(\$16,688)		\$22,480

Explanation of Adjustment:

- A - Refer to Schedule 2, Page 2
- B - Refer to Schedule 2, Page 4
- C - To provide cash working capital allowance based on the formula method.

ADJUSTMENT-A PLANT IN SERVICE

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	20,000	(15,306) a	4,694
304 Structures & Improvements	2,590	(1,982) b	608
307 Wells & Springs	9,490	(7,263) c	2,227
311 Pumping Equipment	7,397	(3,444) d	3,953
320 Water Treatment Equipment	0	0	0
330.1 Distrib. Res. & Standpipes(Storage)	2,976	(2,278) e	698
330.2 Distrib. Res. & Standpipes(Pressure)	0	0	0
331 Transmission & Distribution Mains	35,076	147 g	35,223
333 Services	802	0	802
334 Meters & Meter Installations	759	(73) f	686
309 Flowhead Meters	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$79,090	(\$30,199) A	\$48,891

Explanation of Adjustment:

a thru g Refer to Schedule 2, Page 3

ADJUSTMENT-A PLANT IN SERVICE (Cont'd)

Explanation of Adjustment:

- a - f Several adjustments to plant in service were required. The adjustments were attributed to the Company's inability to substantiate plant values. Staff reconciled the plant in service on the rate application to the 1992 system's purchase documentation, Decision No. 57852 and adjusted for additions and retirement.

a - LAND AND LAND RIGHTS - Per Company	\$	20,000	
	\$	4,694	(15,306)
b - STRUCTURE AND IMPROVEMENTS - Per Company	\$	2,590	
	\$	608	(1,982)
c - WELLS AND SPRINGS - Per Company	\$	9,490	
	\$	2,227	(7,263)
d - ELECTRICAL PUMPING EQUIPMENT - Per Company	\$	7,397	
	\$	3,953	(3,444)
e - STORAGE TANK - Per Company	\$	2,976	
	\$	698	(2,278)
f - METERS AND METER INSTALLATIONS - Per Company	\$	759	
	\$	686	(73)
g - TRANSMISSION & DIST. MAIN - Per Company	\$	35,076	
	\$	35,223	147

Adjustment g recognizes negative acquisition adjustment of \$147 that resulted from the purchase of plant assets below the net book value in Decision No. 57852.

ADJUSTMENT-B ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$40,415
Accumulated Depreciation - Per Staff	25,500
Total Adjustment	<u>(\$14,915) B</u>

Explanation of Adjustment:

B -	Accumulated depreciation per Decision No. 57852	\$ 149
	Plus: Depreciation Expense from year 1992 through year 2008.	27,021
	Less: Plant Retirement	<u>(1,670)</u>
	Total	\$ 25,500

ACCT NO.	DESCRIPTION	Staff Calculated	Company Application	Staff Adjustment
354	Structures and Improvements	\$ 526	\$ 2,219	\$ (1,693)
307	Wells and Srings	1,929	8,039	\$ (6,110)
311	Electric Pumping Equipment	(472)	4,181	\$ (4,653)
320	Water Treatment Equipment	-	-	\$ -
330	Distribution Reservoirs & Standpipes	-	-	\$ -
330.1	Storage Tanks	605	2,531	\$ (1,926)
330.2	Pressure Tanks	-	-	\$ -
331	Transmission and Distribution Mains	22,223	22,128	\$ 95
333	Services	270	558	\$ (288)
334	Meters and Meter Installation	418	759	\$ (341)
348	Other Tangible Plant	-	-	\$ -
	Total Adjustment	<u>\$ 25,500</u>	<u>\$ 40,415</u>	<u>\$ (14,915)</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$8,475	\$0	\$8,475
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	15	0	15
Total Operating Revenue	\$8,490	\$0	\$8,490
Operating Expenses:			
601 Salaries and Wages	\$7,414	(\$4,874) A	\$2,540
610 Purchased Water	0	0	0
615 Purchased Power	890	(14) B	876
618 Chemicals	0	0	0
620 Repairs and Maintenance	608	0	608
621 Office Supplies & Expense	276	64 C	340
630 Outside Services	180	0	180
635 Water Testing	660	175 D	835
641 Rents	308	23 E	331
650 Transportation Expenses	0	292 F	292
657 Insurance - General Liability	41	51 G	92
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	0	0	0
403 Depreciation Expense	2,956	(1,564) H	1,392
408 Taxes Other Than Income	553	(125) I	428
408.11 Property Taxes	366	0	366
409 Income Tax	0	0	0
Total Operating Expenses	\$14,252	(\$5,972)	\$8,280
OPERATING INCOME/(LOSS)	(\$5,762)	\$5,972	\$210

STAFF ADJUSTMENTS

A - SALARIES AND WAGES - Per Company	\$7,414	
Per Staff	2,540	(\$4,874)

To reflect Staff's calculation of the allocated portion of the officer's salary using Staff's four-factor allocation methodology.

B - PURCHASED POWER - Per Company	\$890	
Per Staff	876	(\$14)

To reflect the aggregate of the test year purchased power invoices.

C - OFFICE SUPPLIES EXPENSE - Per Company	\$276	
Per Staff	340	\$64

To reflect Staff's calculation of the allocated portion of the office supplies and expenses using Staff's four-factor allocation methodology.

D - WATER TESTING - Per Company	\$660	
Per Staff	835	\$175

To recognize Staff Engineer's water testing expense recommendation.

E - RENTS - Per Company	\$308	
Per Staff	331	\$23

To reflect Staff's calculation of the allocated portion of the rents using Staff's four-factor allocation methodology.

F - TRANSPORTATION EXPENSE - Per Company	\$0	
Per Staff	292	\$292

To reflect Staff's calculation of transportation expense.

G - GENERAL LIABILITY INSURANCE - Per Company	\$41	
Per Staff	92	\$51

To reflect Staff's calculation of the general liability insurance cost using Staff's four-factor allocation methodology.

I - TAXES OTHER THAN INCOME - Per Company	\$553	
Per Staff	428	(\$125)

To reflect Staff's calculation of taxes other than income.

STAFF ADJUSTMENTS (Cont.)

H - DEPRECIATION - Per Company
Per Staff

\$2,956
1,392 (\$1,564)

To reflect application of Staff's recommended depreciation rates to
Staff's recommended plant, by account.

Pro Forma Annual Depreciation Expense:

Operating Income Adjustment H - Test Year Depreciation Expense

1	<u>Depreciation Expense</u>			
2				
3	Account	Plant in	Proposed	Depreciation
4	No. Description	Service	Rate	Expense
5		Staff		
6	301 Organization Cost	-	0.00%	-
7	302 Franchise Cost	-	0.00%	-
8	303 Land and Land Rights	4,694	0.00%	-
9	304 Structures and Improvements	608	3.33%	20
10	305 Collecting and Impounding Res.	-	2.50%	-
11	307 Wells and Springs	2,227	3.33%	74
12	310 Power Generation Equipment	-	5.00%	-
13	311 Electric Pumping Equipment	3,953	12.50%	494
14	320.1 Water Treatment Equipment - Plants	-	3.33%	-
15	330 Distribution Reservoirs & Standpipe	-	0.00%	-
16	330.1 Storage Tanks	698	2.22%	15
17	330.2 Pressure Tanks	-	5.00%	-
18	331 Transmission and Distribution Mains	35,223	2.00%	704
19	333 Services	802	3.33%	27
20	334 Meters	686	8.33%	57
21	335 Hydrants	-	2.00%	-
22	339 Other Plant and Miscellaneous Equipment	-	6.67%	-
23	340 Office Furniture and Fixtures	-	6.67%	-
24	341 Transportation Equipment	-	20.00%	-
25	343 Tools and Work Equipment	-	5.00%	-
26	345 Power Operated Equipment	-	5.00%	-
27	347 Miscellaneous Equipment	-	10.00%	-
28	348 Other Tangible Plant	-	0.00%	-
29	Total Plant	\$ 48,891		\$ 1,392
30	Less: Non Depreciable Plant	4,694		
31	Total Depreciable Plant	44,197		
32	Less: Amort. of Contributions - Adjusted Balance End o	\$ -	3.15%	\$ -
33	Total Depreciation Expense			\$ 1,392
34	Test Year Depreciation Expense			2,956
35	Increase (decrease) in Depreciation Expense			<u>(1,564)</u>
36				
37	Adjustment to Revenues and/or Expenses			<u>\$ (1,564)</u>

**OPERATING INCOME ADJUSTMENT #1 - TO REFLECT STAFF CALCULATION OF THE TEST
YEAR TAXES OTHER THAN INCOME**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Taxes Other Than Income	\$ 553	\$ (125)	\$ 428
	Salaries and Wages	\$ 2,561		
	FICA & Medicare	7.65%	\$ 196	
	No. of Employees	2		
	Salary Subject to Unemployment Tax	\$ 7,000		
	Total Taxable Unemployment Salaries	\$ 2,561		
	Combined SUTA & FUTA Rate	9.05%	\$ 232	
	SUTA Rate	0.0285		
	FUTA Rate	0.062		
	Combined SUTA & FUTA Rate	0.0905		
	Franchise Tax		\$ -	
	Other Taxes and Fees		\$ -	
	Total Taxes Other Than Income			\$ 428

References:

Col [A]: Company Application
Col [B]: Col [C] - Col [A]
Col [C]: BCA Staff Report

Calculation of Four-Factor Allocation						
	[A]	[B]	[C]	[D]	[E]	[A]
	Direct Labor Hours	Direct Oper Expenses	Number of Customers	Net Plant	Total (Col A+B+C+D)	Allocation % (Col E / 4)
Cedar Grove	0.428679558	0.290775789	0.486376022	0.255769029	1.461600397	0.365400099
Watco	0.533711785	0.637769624	0.430517711	0.719557791	2.321556911	0.580389228
Vernon Valley	0.018686062	0.038175662	0.025885559	0.016510689	0.099257971	0.024814493
A. Petersen	0.018922595	0.033278925	0.057220708	0.008162492	0.117584720	0.029396180
	1.00000000	1.00000000	1.00000000	1.00000000	4.00000000	1.00000000

Allocated Labor Hours Worked for Each Company by Employee					
From Data Request BCA 3.2					
Employee Name	Cedar Grove	Watco	Vernon Valley	A. Petersen	Total
Thomas Grapp	26.00	26.00	26.00	26.00	104.00
Mark Grapp Sr.	52.00	52.00	52.00	52.00	208.00
Mark E. Grapp II	16.50	455.00	-	1.00	472.50
Barbie Grapp	13.75	13.75	-	-	27.50
Cammy W. Grapp	14.50	14.50	-	-	29.00
Michael J. Crapo	728.35	733.90	-	-	1,462.25
Betty D. Crapo	952.00	952.00	-	-	1,904.00
Bryan, Mullins	1.00	1.00	1.00	1.00	4.00
Lyndee L. Tyra	8.25	8.25	-	-	16.50
	1,812.35	2,256.40	79.00	80.00	4,227.75

Direct Labor Hrs. Allocation %: 0.428679558 0.533711785 0.018686062 0.018922595 1.00

Number of Customers by Company					
From 2008 Annual Report					
	Cedar Grove	Watco	Vernon Valley	A. Petersen	Total
No. of Customers	357.00	316.00	19.00	42.00	734.00

No. of Customers Allocation %: 0.486376022 0.430517711 0.025885559 0.057220708 1.00

Net Plant by Company					
Source: CG, ann rept (per Co); Watco, ann rept (Staff adj); VV, 2008 rate app.; AP, rate app (Staff adj)					
	Cedar Grove	Watco	Vernon Valley	A. Petersen	Total
Net Plant	599,119.00	1,685,508.00	38,675.00	19,120.00	2,342,422.00

Net Plant Allocation %: 0.255769029 0.719557791 0.016510689 0.008162492 1.00

Direct Operating Expenses (Excluding Salaries & Wages)					
Source: CG, ann rept (per Co); Watco, ann rept (per Co); VV, 2005 rate app.; AP, ann. rept (Staff adj)					
	Cedar Grove	Watco	Vernon Valley	A. Petersen	Total
Purchased Pwr	\$ 13,713.00	\$ 12,765	\$ 890.00	\$ 2,361.00	\$ 29,729.00
Repairs & Maintenance	\$ 4,980.00	\$ 6,546.00	\$ 608.00	\$ 12.00	\$ 12,146.00
Outside Services	\$ 2,967.00	\$ 12,097.00	\$ 180.00	\$ 518.00	\$ 15,762.00
Water Testing	\$ 1,701.00	\$ 1,400.00	\$ 660.00	\$ 828.00	\$ 4,589.00
Depreciation Expense	\$ 15,983.00	\$ 58,774.00	\$ 2,956.00	\$ 901.00	\$ 78,614.00
Property Taxes	\$ 3,767.00	\$ 2,975.00	\$ 366.00	\$ 314.00	\$ 7,422.00
	\$ 43,111.00	\$ 94,557.00	\$ 5,660.00	\$ 4,934.00	\$ 148,262.00

Direct Oper Exp Allocation %: 0.290775789 0.637769624 0.038175662 0.033278925 1.00

RATE DESIGN

	Present Rates	Company Proposed	Staff Recommended
<u>Monthly Usage Charge</u>			
5/8" x 3/4" Meter	\$25.00	\$25.00	\$ 24.00
3/4" Meter	30.00	30.00	36.00
1" Meter	45.00	45.00	60.00
1 1/2" Meter	60.00	60.00	120.00
2" Meter	80.00	120.00	192.00
3" Meter	NT	250.00	384.00
4" Meter	NT	400.00	600.00
6" Meter	NT	900.00	1,200.00
Gallons in the Minimum	1,000	0	0
<u>Present rates 5/8 X 3/4-inch Meter</u>			
First Tier - Over 1,000 gallons (Per 1,000 Gallons)	3.00		
<u>Company Proposed - All Sizes</u>			
All Meter Sizes (Per 1,000 Gallons)		3.00	
<u>Staff Recommended - All Sizes</u>			
Tier One Rate - 0 - 4,000 gallons			3.00
Tier Two Rate - 4,001 - 10,000 gallons			4.55
Tier Three Rate - Over 10,000 gallons			6.20

	Present Rates	Company Proposed	Service Line Charge	-Staff Recommended- Meter* Installation	Total
<u>Service Line and Meter Installation Charges</u>					
5/8" x 3/4" Meter	\$150.00	\$0.00	\$0.00	\$0.00	\$0.00
3/4" Meter	175.00	320.00	230.00	90.00	\$320.00
1" Meter	200.00	370.00	230.00	140.00	\$370.00
1 1/2" Meter	450.00	545.00	280.00	265.00	\$545.00
2" Meter	650.00	750.00	330.00	420.00	\$750.00
3" Meter	NT	980.00	380.00	600.00	\$980.00
4" Meter	NT	1,820.00	650.00	1,170.00	\$1,820.00
6" Meter	NT	3,920.00	1,200.00	2,720.00	\$3,920.00

	Present Rates	Company Proposed	Staff Recommended
<u>Service Charges</u>			
Establishment	\$15.00	\$25.00	\$25.00
Establishment (After Hours)	35.00	40.00	40.00
Reconnection (Delinquent)	15.00	25.00	25.00
Reconnection (Delinquent) After Hours	NT	40.00	40.00
Meter Test (If Correct)	50.00	40.00	25.00
Deposit		* AACR-14-2-403(B)	*
Deposit Interest		6% AACR-14-2-403(B)	**
Re-Establishment (Within 12 Months)		** AACR-14-2-403(B)	***
NSF Check	10.00	30.00	25.00
Deferred Payment	NT	1.50%	1.50%
Meter Re-Read (If Correct)	10.00	20.00	15.00
Late Payment Charge-Per month	NT	1.50%	1.50%

Note: Meter charge include meter box or vault.
NT: No Tariff

RATE DESIGN

	Present Rates	Company Proposed	Staff Recommended
<u>Monthly Service Charge for Fire Sprinkler</u>			
4" or Smaller	\$0.00	\$0.00	****
6"	0.00	0.00	****
8"	0.00	0.00	****
10"	0.00	0.00	****
Larger than 10"	0.00	0.00	****

* Per Commission Rule AAC R14-2-403(B)(7)

** Per Commission Rule AAC R14-2-403(B)(3)

*** Months off system times the monthly minimum AAC R14-2-403(D)

**** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection,
but no less than \$10.00 per month. The Service Charge for Fire Sprinklers
is only applicable for service lines separate and distinct from the primary
water service line.

TYPICAL BILL ANALYSIS

General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 18

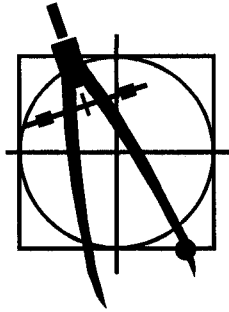
<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	5,862	\$39.59	\$42.59	\$3.00	7.6%
Median Usage	3,958	\$33.88	\$36.88	\$3.00	8.9%

<u>Staff Recommend</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	5,862	\$39.59	\$44.47	\$4.88	12.3%
Median Usage	3,958	\$33.88	\$35.88	\$2.00	5.9%

Present & Proposed Rates (Without Taxes)

General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$25.00	\$25.00	0.0%	\$24.00	-4.0%
1,000	25.00	28.00	12.0%	27.00	8.0%
2,000	28.00	31.00	10.7%	30.00	7.1%
3,000	31.00	34.00	9.7%	33.00	6.5%
4,000	34.00	37.00	8.8%	36.00	5.9%
5,000	37.00	40.00	8.1%	40.55	9.6%
6,000	40.00	43.00	7.5%	45.10	12.8%
7,000	43.00	46.00	7.0%	49.65	15.5%
8,000	46.00	49.00	6.5%	54.20	17.8%
9,000	49.00	52.00	6.1%	58.75	19.9%
10,000	52.00	55.00	5.8%	63.30	21.7%
15,000	67.00	70.00	4.5%	94.30	40.7%
20,000	82.00	85.00	3.7%	125.30	52.8%
25,000	97.00	100.00	3.1%	156.30	61.1%
50,000	172.00	175.00	1.7%	311.30	81.0%
75,000	247.00	250.00	1.2%	466.30	88.8%
100,000	322.00	325.00	0.9%	621.30	93.0%
125,000	397.00	400.00	0.8%	776.30	95.5%
150,000	472.00	475.00	0.6%	931.30	97.3%
175,000	547.00	550.00	0.5%	1,086.30	98.6%
200,000	622.00	625.00	0.5%	1,241.30	99.6%



**Engineering Report for:
Vernon Valley Water, Inc.
Application for a Rate Increase
Docket No. W-20540A-09-0351**

**By: Jian W Liu
Utilities Engineer**

January 7, 2010

EXECUTIVE SUMMARY

CONCLUSIONS:

1. Vernon Valley Water, Inc. ("Vernon Valley" or "Company") is not located in any Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements.
2. Staff received an Arizona Department of Water Resources ("ADWR") compliance status report in November 2009, ADWR reported that it has determined that Vernon Valley is currently in compliance with departmental requirements governing water providers and/or community water systems.
3. ADEQ regulates the Company's existing Water System under ADEQ Public Water System ("PWS") No. 01-054. Based on compliance information submitted by the Company, the system has no major deficiencies and ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.
4. A check with the Utilities Division Compliance Section showed no delinquent compliance items for the Company.
5. Vernon Valley has an approved Curtailment Tariff on file with the Commission.

RECOMMENDATIONS

1. Staff recommends annual water testing expense of \$835 be used for purposes of this application.
2. Staff recommends that the Company use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category as delineated in Table H-1.

3. Staff recommends that within 90 days of a Decision in this matter the Company file documentation with Docket Control, as a compliance item in this docket, demonstrating that Company has installed a master meter on the well. Staff further recommends that Vernon Valley be required to report its water pumped by month in future Annual Reports.
4. If the water loss greater than 10 percent in any 12 months period, Staff recommends that within 90 days after the Annual Report filed, the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Vernon Valley will reduce its water loss to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company should submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost-effective. In any event water loss shall not exceed 15 percent. The Company shall file the cost analysis report with Docket Control, as a compliance item in this docket within 90 days after the Annual Report filed.
5. Staff recommends that the charges listed under "Staff's Recommendation" in Table J-1 be adopted.
6. Staff recommends that the Company file a Cross-Connection or Backflow Tariff in the form found on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms/CrossConnectBackflow.pdf>. This tariff shall be docketed as a compliance item in this case within 45 days of the effective date of an order in this proceeding for review and certification by Staff.
7. Staff recommends that Vernon Valley Water install/update the "informational" sign at the facility site. Sign should comply with ADEQ requirements and includes the following information: system name, system PWS ID and emergency contact phone numbers. Staff further recommends that the Company file documentation with Docket Control demonstrating compliance within 45 days after the effective date of the decision in this case.

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A. LOCATION OF THE COMPANY

Vernon Valley Water, Inc. ("Vernon Valley" or "Company") is located approximately 18 miles east of Show Low, Apache County, Arizona. Figure A-1 shows the location of Vernon Valley within Apache County and Figure A-2 shows the certificated area.

B. DESCRIPTION OF WATER SYSTEM

The water system was field inspected on November 24, 2009, by Jian W. Liu, Staff Utilities Engineer, in the accompaniment of Thomas Grapp, Manager for the Company.

The facility consists of one well, producing approximately 31.5 gallons per minute ("GPM"). The system also has one 10,000 gallons storage tank, and a distribution system serving 19 customers during the test year. Detailed plant facility descriptions follow:

Well Data

Well Number	ADWR ID No.	Pump HP	Pump GPM	Casing Size(in) & Depth(ft)	Meter Size(in)	Year Drilled
1	55-511289	5	31.5	6 and 400	N/A	1985

Note: GPM = gallons per minute.

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
10,000	1	120	1	2	2
Total 10,000					

Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
2	660	5/8x3/4	21	
4	2,880	3/4	1	
6	1,495	1		
		1.5		
		Total	22	

Water System Analysis

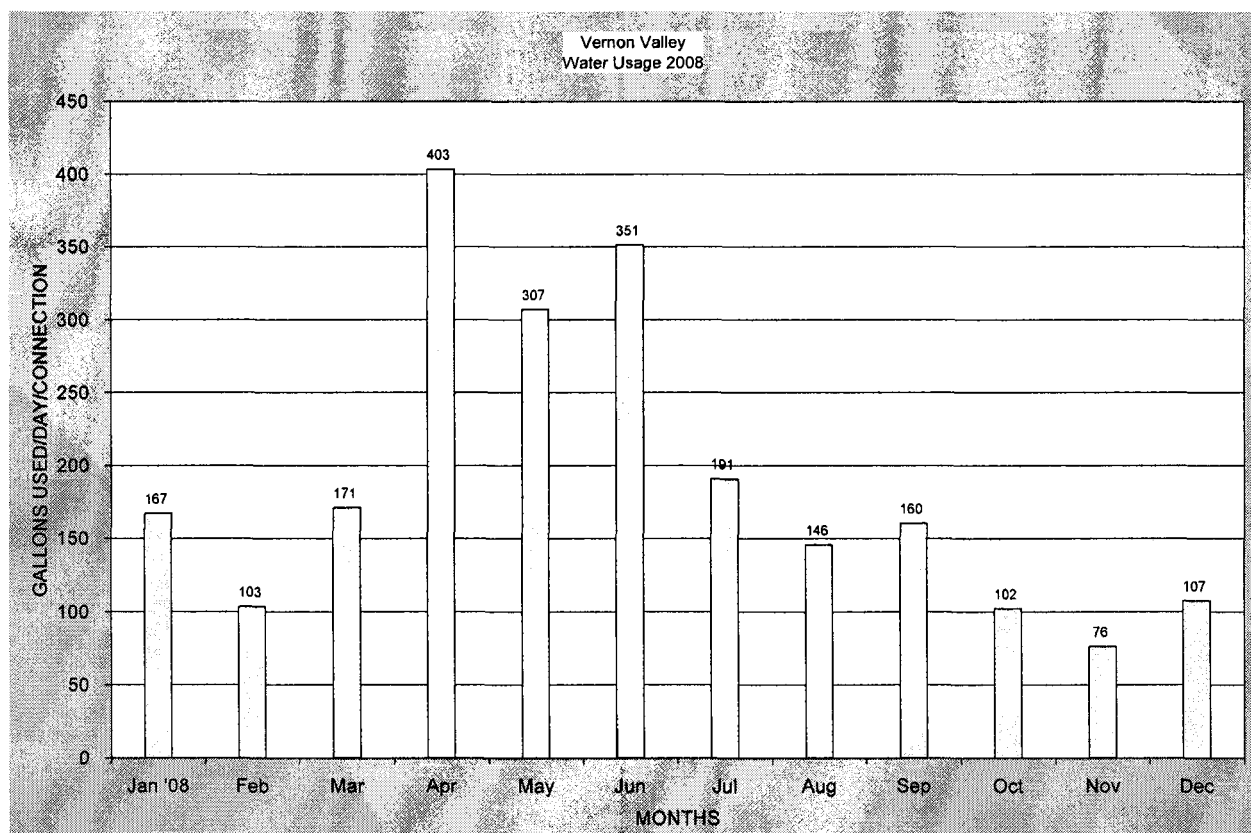
The existing water system has adequate well production and storage capacity to serve existing connections.¹

C. WATER USE

Water Sold

Based on the information provided by Vernon Valley, water use for the test year is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 403 gallons per day ("GPD") per connection and a low monthly average water use of 76 GPD per connection and an average annual use of 190 GPD per connection.

Figure C-1. Water Use



¹ The Company does not expect to add any new connections to the system within the next five years.

Non-Account Water

Non-account water should be 10 percent or less. Since Company inception, Company has not metered water pumped because there is no master meter installed on the well. The Company estimated the cost of material is approximately \$750, and labor expense is approximate \$750 to install a master meter on the well. Therefore, the total cost to install a master meter on the well is approximately \$1,500.

Staff recommends that within 90 days of a Decision in this matter the Company file with Docket Control, as a compliance item in this docket, documentation demonstrating that the Company has installed a master meter on the well. Staff further recommends that Vernon Valley be required to report its water pumped by month in future Annual Reports.

If the water loss greater than 10 percent in any 12 months period, Staff recommends that within 90 days after the Annual Report filed, the Company file with Docket Control, as a compliance item in this docket, a detailed plan demonstrating how the Vernon Valley will reduce its water loss to less than 10 percent. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company should submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost-effective. In any event water loss shall not exceed 15 percent. The Company shall file the cost analysis report with Docket Control, as a compliance item in this docket within 90 days after the Annual Report filed.

D. GROWTH

There were 22 service connections in 2003. During the test year 2008, the Company had 22 service connections (19 active, 3 vacant) and the Company is projecting that there will be no growth within the next five years as a result of the economic down-turn.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

ADEQ regulates the Company's existing Water System under ADEQ Public Water System ("PWS") No. 01-054. Based on compliance information submitted by the Company², the system has no major deficiencies and ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

During its site inspection Staff noted that a sign listing the Company's identification and contact information was not visible at facility site. Staff recommends that Vernon Valley Water

² ADEQ Compliance Status Report dated Dec 22, 2009.

install/update an “informational” sign at the facility site. Sign should comply with ADEQ requirements and includes the following information: system name, system PWS ID and emergency contact phone numbers. Staff further recommends that the Company file documentation with Docket Control demonstrating compliance within 45 days after the effective date of the decision in this case.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an additional fee of \$2.57 per service connection, regardless of meter size for participation in MAP. Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$660 during the test year. Table A shows Staff's annual monitoring expense estimated at \$835 with participation in the MAP. Staff recommends annual water testing expense of \$835 be used for purposes of this application.

Table A Water Testing Expense

Monitoring PWS#14-075 (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Total Coliform – monthly	\$ 20	36	720	\$240
Inorganics	\$90	6	\$540	\$180
Nitrates – annual	\$25	3	\$75	\$25
Lead & Copper – semi- annual	\$45	6	\$270	\$90
MAP fees (annual)				\$300 (rounded)
Total				\$835

F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

The Company is not located in any Active Management Area (“AMA”) and is not subject to any AMA reporting and conservation requirements. ADWR reported that it has determined that Vernon Valley is currently in compliance with departmental requirements governing water providers and/or community water systems.³

³ ADWR compliance status report dated November 2009.

G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent compliance items for the Company.⁴

H. DEPRECIATION RATES

Vernon Valley has been using a composite depreciation rate of 5.00 percent in every National Association of Regulatory Utility Commissioners ("NARUC") plant category for many years. In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by National Association of Regulatory Utility Commissioners ("NARUC") category. (For example, a uniform 2.50% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table H-1 and it is recommended that the Vernon Valley use these depreciation rates by individual NARUC category.

I. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFF

Vernon Valley has an approved Curtailment Tariff on file with the Commission.

Staff recommends that the Company file a Cross-Connection or Backflow Tariff in the form found on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms/CrossConnectBackflow.pdf>. This tariff shall be docketed as a compliance item in this case within 45 days of the effective date of an order in this proceeding for review and certification by Staff.

J. SERVICE LINE AND METER INSTALLATION CHARGES

The Company has requested to change its service line and meter installation charges. These charges are refundable advances. The Company has proposed to reduce its 5/8 X 3/4 meter charge to \$0.00. The Company has told Staff that it would prefer not to charge for the 5/8 meter because the administrative cost of refunding outweighs any benefit especially for the standard meter. For the larger size meters, the Company's proposed charges are below Staff's recommended range for these charges. The Company would like to keep these charges as low as reasonable so that potential annual refunds to customers are minimized which the Company believes will create less of a financial burden for it. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been

⁴ Compliance status report dated on November 2009.

developed by Staff. Staff recommends that the charges listed under "Staff's Recommendation" in Table J-1 be adopted.

Table J-1. Service Line and Meter Installation Charges

Meter Sizes	Current Charges	Company Proposed Charges	Staff recommended Service Line Charges	Staff recommended *Meter Charges	Staff recommended Total Charges
5/8" x 3/4"	150	0	\$0	\$0	\$0
3/4"	175	320	\$230	\$90	\$320
1"	200	370	\$230	\$140	\$370
1-1/2"	450	545	\$280	\$265	\$545
2"	650	750	\$330	\$420	\$750
3"	NT	980	380	600	980
4"	NT	1,820	650	1,170	1,820
6"	NT	3,920	1,200	2,720	3,920

*Note: Meter charge includes meter box or vault.

NT: No Tariff

APACHE COUNTY

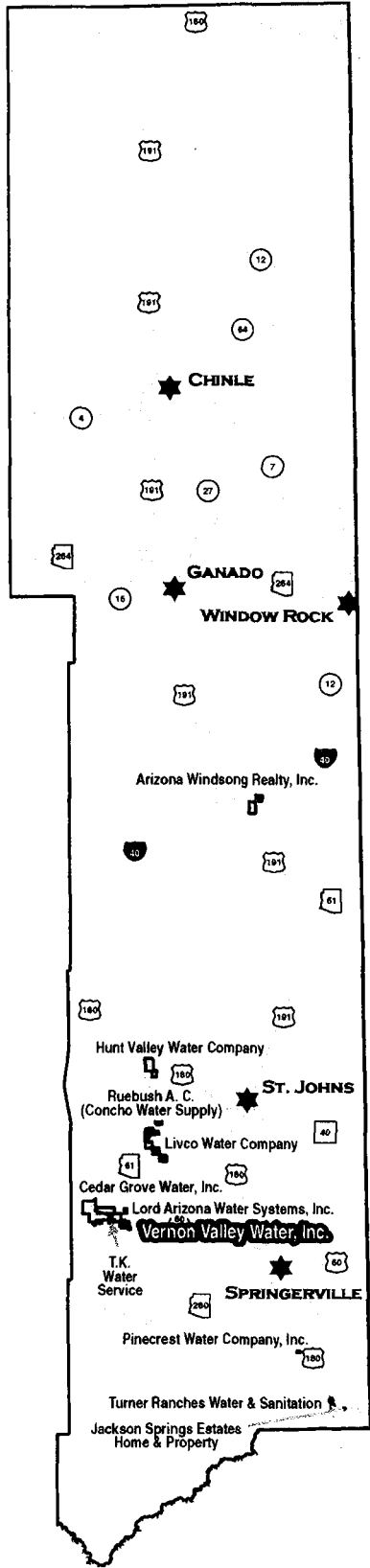


Figure A-1. County Map

APACHE COUNTY

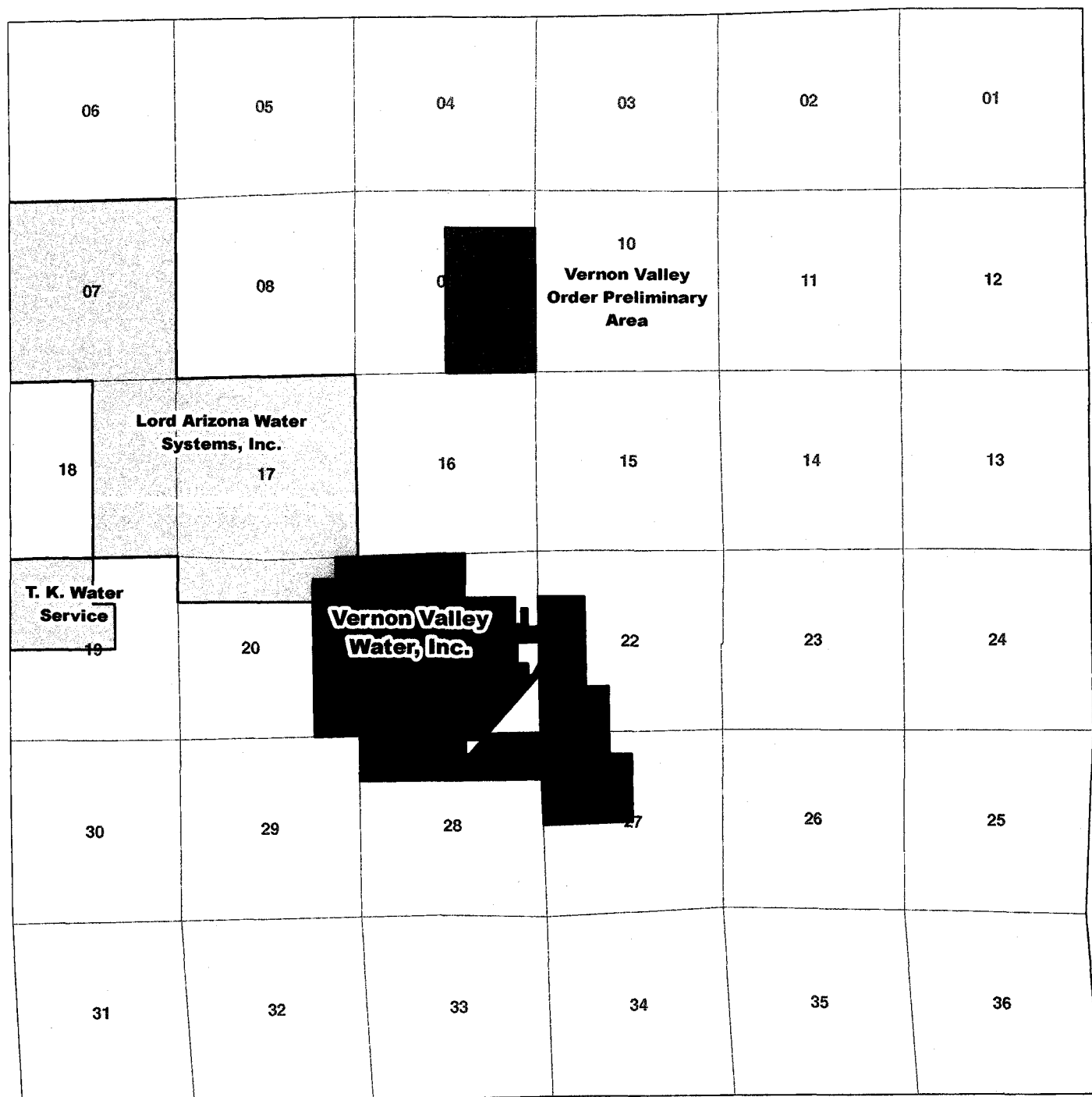


Figure A-2. Certificated Area

Table H-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	10	10.00